

Committee on Ways and Means

H.R. 6, Energy Policy Act of 2005

Summary of Tax Title

The tax title of H.R. 6, the *Energy Policy Act of 2005*, accomplishes three goals. It 1) improves our energy infrastructure, 2) encourages exploration, development and production of energy, and 3) encourages development and extended use of improved energy technology.

Improves Our Energy Infrastructure

Natural Gas

- Natural gas is a clean-burning energy source that powers our economy. According to the Department of Energy (DOE), demand for natural gas will increase by more than 50 percent in 20 years.
- The bill will encourage new investment in the development and transportation of natural gas sources by reducing the depreciation period for natural gas gathering and distribution lines.

Electric Utilities

- Most of our existing electricity transmission system was built 30 - 50 years ago. This outdated system is not designed to carry the increasing volumes of electricity demanded today. New transmission facilities and the modernization of existing transmission systems are essential to satisfy the increasing demand for electricity.
- The bill will provide incentives to modernize electric transmission assets by reducing their depreciation period to 15 years.
- In addition, the bill allows a five-year recovery period for new investments in air pollution control facilities at coal burning power plants. The shorter recovery period will make it easier to comply with new EPA regulations, thus making it more attractive to use abundant, affordable coal to produce electricity.

Nuclear Power

- Nuclear power accounts for 20 percent of the electricity generated in the United States.
- The bill reforms current rules for nuclear decommissioning funds by allowing sufficient funds to be set aside for the proper disposal of excess property and equipment when nuclear facilities reach the end of their useful life.

Encourages Development and Extended Use of Improved Energy Technology

Promotes Use of Solar Power

- Provides a 15-percent tax credit of up to \$2,000 for the purchase of residential photovoltaic and solar water heating equipment to encourage the use of solar energy.

Promotes More Fuel Efficient Diesel Vehicles

- Provides a tax credit of up to \$3,500 for the purchase of lean-burn diesel vehicles, which offer greater fuel efficiency and lower emissions.

Promotes Fuel Cell Technology

- Provides a 15-percent tax credit for business installation of fuel cell power plants and residential fuel cell investments.
- As a distributed generation technology, fuel cells address the immediate need for secure, efficient, clean energy supplies, while reducing grid demand and increasing grid flexibility.
- Fuel cells emit less than half the CO₂ of coal-fired plants when operating on a fossil fuel, such as natural gas. CO₂ emissions are reduced to nearly zero when the fuel cells are powered by hydrogen from a renewable energy source (such as solar, wind or hydropower) or if the fuel source is bio-fuel (such as ethanol from plant wastes).

Promotes Energy Efficient Improvements to Homes

- Provides a 20-percent tax credit of up to \$2,000 for energy efficiency improvements to existing homes.

Encourages the Development and Use of Diesel-Water Emulsions

- Reduces the fuel tax rate on diesel-water emulsions so that taxpayers are not taxed on the water content in the mixture, thus encouraging use of this emulsion in the United States.

- Adding water to diesel fuel has significant environmental benefits. It lowers the combustion temperature of the fuel, thereby reducing the nitrogen oxide emissions by up to 30 percent. It also delays combustion of the fuel, thereby reducing particulate matter emissions by up to 50 percent.

Provides AMT Relief for These Tax Incentives

- Providing AMT relief ensures that taxpayers receive the full value of the tax incentive so that they may fully utilize these new and improved energy technologies without the fear of adverse tax consequences.

Encourages Exploration, Development and Production of Energy

According to the DOE, the demand for oil and natural gas will increase 46 percent by the year 2025. Tax incentives in the bill will promote exploration, development and production of energy.

- **Provides Two-Year Amortization of Delay Rental Payments and Geological and Geophysical Costs**
 - Faster cost recovery of expenses will encourage investment in the exploration for and development of oil and gas in the United States.
 - It will also make it more economical for companies to better utilize survey work before drilling to ensure the maximum production from each well.
- **Allows Prepayment For Natural Gas with Tax Exempt Bond Proceeds**
 - This provision will provide utilities with the funds necessary to secure a supply of natural gas at reasonable prices for their customers.
- **Makes More Small Refiners Eligible for Percentage Depletion Deductions**
 - The provision will encourage small refiners to maximize their capacity and expand their operations to respond appropriately to the market.
- **Reforms the non-conventional fuels credit by providing relief from the Alternative Minimum Tax (AMT)**
 - This will encourage more stable production because production will be based on market demands rather than tax liability.